

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Kalamazoo Employee Retirement Sys	County Kalamazoo
Fiscal Year End December 31, 2006	Opinion Date June 28, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

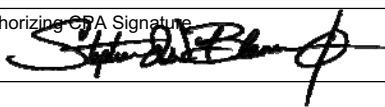
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**CITY OF KALAMAZOO
EMPLOYEES' RETIREMENT SYSTEM**

**Financial Statements
and
Supplementary Information**

**For the Years Ended
December 31, 2006 and 2005**



REHMANN ROBSON

Certified Public Accountants

**CITY OF KALAMAZOO
EMPLOYEES' RETIREMENT SYSTEM**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 28, 2007

Members of the Employees'
Retirement System Investment Committee
City Commission of Kalamazoo
Kalamazoo, Michigan

We have audited the accompanying statements of plan net assets of the *City of Kalamazoo Employees' Retirement System* as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the City of Kalamazoo. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Employees' Retirement System pension trust fund and do not purport to and do not present fairly the financial position and changes in financial position of the City of Kalamazoo, Michigan, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Kalamazoo Employees' Retirement System as of December 31, 2006 and 2005 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the City of Kalamazoo Employees' Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented Management's Discussion and Analysis for the Employees' Retirement System pension trust fund as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the financial statements.

The historical pension information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of cash and investments as of December 31, 2006 and 2005, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

FINANCIAL STATEMENTS

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Statements of Plan Net Assets
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and short-term investments	\$ 2,431,539	\$ 2,568,664
Receivables:		
Investments sold but unsettled	144,572	-
Interest and dividends receivable	1,945,482	1,693,202
Due from Cemetery Perpetual Care Fund	-	45,000
Investments:		
U.S. treasuries	68,307,731	67,841,669
U.S. agencies	26,453,918	29,412,261
Corporate debt securities	29,466,392	21,215,623
Equity mutual funds	369,115,379	326,944,480
Real estate mutual funds	25,552,484	23,367,965
	<u>518,895,904</u>	<u>468,781,998</u>
Total investments		
	<u>523,417,497</u>	<u>473,088,864</u>
Liabilities		
Accounts payable	60,592	-
Accounts payable for investments purchased but not settled	<u>113,825</u>	<u>3,046,417</u>
	<u>174,417</u>	<u>3,046,417</u>
Total liabilities		
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 11)	<u><u>\$ 523,243,080</u></u>	<u><u>\$ 470,042,447</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Additions		
Investment income:		
Net change in fair value of investments	\$ 45,039,998	\$ 16,497,172
Interest and dividends	22,253,473	16,989,324
Less investment advisor fees	<u>(839,099)</u>	<u>(1,274,622)</u>
Net investment income	66,454,372	32,211,874
Contributions - employees	<u>1,518,785</u>	<u>1,458,492</u>
Total additions	<u>67,973,157</u>	<u>33,670,366</u>
Deductions		
Pension benefits paid directly to participants	14,256,358	13,421,166
Refund payments to terminated employees	109,251	305,480
Trustee fees	172,657	248,673
Actuarial fees	77,905	68,646
Administrative fees paid to the City of Kalamazoo	105,235	101,400
Investment committee expenses	16,793	12,263
Other expenses	<u>34,325</u>	<u>43,213</u>
Total deductions	<u>14,772,524</u>	<u>14,200,841</u>
Net increase	53,200,633	19,469,525
Net assets held in trust for pension benefits		
Beginning of year	<u>470,042,447</u>	<u>450,572,922</u>
End of year	<u><u>\$ 523,243,080</u></u>	<u><u>\$ 470,042,447</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO

Employees' Retirement System

Notes To Financial Statements

1. PLAN DESCRIPTION

The City of Kalamazoo Employees' Retirement System (the "System") is a single-employer defined benefit contributory retirement plan which provides pension, death and disability benefits covering all full-time employees and some part-time employees of the City of Kalamazoo (the "City").

System membership consisted of the following at December 31, 2006 and 2005, the dates of the latest actuarial valuations:

	<u>2006</u>	<u>2005</u>
Retirees and beneficiaries currently receiving benefits	720	715
Terminated employees entitled to but not yet receiving benefits	42	36
Vested and non-vested active participants	<u>788</u>	<u>783</u>
Total	<u>1,550</u>	<u>1,534</u>

Plan members are required to contribute between 1.0% to 6.5% of their annual covered salary to the System for pension benefits, depending on bargaining unit. The City contributes such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. No employer contributions were required for the years ended December 31, 2006 and 2005.

The System is administered by the City of Kalamazoo Employees' Retirement System Pension Board of Trustees. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the City Commission of the City of Kalamazoo.

CITY OF KALAMAZOO

Employees' Retirement System

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments and Income Recognition - The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

Administration - Administrative costs are financed through the System's investment earnings.

3. CASH AND INVESTMENTS

Cash and Short-term Investments - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and short-term investments in the statement of plan net assets include cash and money market accounts held by the System's investment managers. These accounts are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of these accounts as of December 31, 2006 and 2005 were \$2,431,539 and \$2,568,664, respectively, of which the insured amounts were \$1,000,009 and \$747,751, respectively. The remaining balances of \$1,431,530 and \$1,820,913, respectively, were uninsured and uncollateralized.

Investments - The System is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other obligations, subject to certain limitations. The System's Investment Committee is responsible for recommending to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System. The City Commission is responsible for approving the recommendations of the Investment Committee.

CITY OF KALAMAZOO

Employees' Retirement System

Notes To Financial Statements

The System's investments are held in 10 portfolios administered by five investment managers. Following is a summary of the System's investments as of December 31:

	<u>2006</u>	<u>2005</u>
U.S. treasuries	\$ 68,307,731	\$ 67,841,669
U.S. agencies	26,453,918	29,412,261
Corporate debt securities	29,466,392	21,215,623
Equity mutual funds	369,115,379	326,944,480
Real estate mutual funds	<u>25,552,484</u>	<u>23,367,965</u>
	<u>\$ 518,895,904</u>	<u>\$ 468,781,998</u>

Credit Risk. The System's investment policy provides that its investments in bonds must be rated in the top four major grades as determined by two nationally recognized statistical rating organizations. As of December 31, 2006 and 2005, the System's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

	<u>2006</u>		<u>2005</u>	
	<u>U.S. agencies</u>	<u>Corporate debt securities</u>	<u>U.S. agencies</u>	<u>Corporate debt securities</u>
Standard & Poor's				
AAA	\$ 26,453,918	\$ 11,835,443	\$ 22,337,645	\$ 8,414,792
AA	-	5,666,487	1,758,142	3,784,424
A	-	5,184,667	-	3,807,339
BBB	-	4,028,404	-	4,504,124
Not rated	-	2,751,391	5,316,474	704,944
	<u>\$ 26,453,918</u>	<u>\$ 29,466,392</u>	<u>\$ 29,412,261</u>	<u>\$ 21,215,623</u>
Moody's				
AAA	\$ 26,453,918	\$ 10,746,873	\$ 24,002,483	\$ 7,962,726
AA	-	6,475,898	1,758,142	4,937,703
A	-	5,854,965	-	3,915,025
BAA	-	2,994,304	-	3,695,225
Not rated	-	3,394,352	3,651,636	704,944
	<u>\$ 26,453,918</u>	<u>\$ 29,466,392</u>	<u>\$ 29,412,261</u>	<u>\$ 21,215,623</u>

CITY OF KALAMAZOO

Employees' Retirement System

Notes To Financial Statements

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy does not address custodial credit risk. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty in the System's name.

Investments in mutual funds and money market funds are not subject to custodial credit risk.

Concentration of Credit Risk. The System's investments are not exposed to concentration of credit risk relative to a single issuer (i.e., company or government agency) inasmuch as no holdings equal or exceed 5% or more of total investments.

The System's investment policy and State statutes provide that no more than 70% of the total investments may be in equity holdings and no more than 5% in real estate. As of December 31, 2006 and 2005, the System's equity holdings accounted for 70.8% and 69.4%, respectively, of the total investment portfolio; the System's holdings in real estate were 4.90% and 4.96% at December 31, 2006 and 2005.

Interest Rate Risk. As of December 31, 2006 and 2005, maturities of the System's debt securities were as follows:

		Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
2006	Fair Value				
U.S. treasuries	\$ 68,307,731	\$ 1,093,257	\$ 6,687,047	\$ -	\$ 60,527,427
U.S. agencies	26,453,918	3,645,365	4,907,417	2,915,629	14,985,507
Corporate debt	29,466,392	1,182,341	14,610,529	1,698,567	11,974,955
Total debt securities	\$ 124,228,041	\$ 5,920,963	\$ 26,204,993	\$ 4,614,196	\$ 87,487,889
2005					
U.S. treasuries	\$ 67,841,669	\$ -	\$ 11,833,000	\$ 5,565,779	\$ 50,442,890
U.S. agencies	29,412,261	2,690,061	5,970,591	2,464,598	18,287,011
Corporate debt	21,215,623	100,893	8,896,763	3,646,604	8,571,363
Total debt securities	\$ 118,469,553	\$ 2,790,954	\$ 26,700,354	\$ 11,676,981	\$ 77,301,264

CITY OF KALAMAZOO

Employees' Retirement System

Notes To Financial Statements

The System's investment policy does not address interest rate risk.

Derivatives. The System's investment policy permits the prudent use of derivatives to reduce portfolio risk and enhance investment return. Under the terms of the investment agreements, portfolio managers are required to report all derivative holdings on a quarterly basis. The Investment Committee monitors these reports to evaluate the System's exposure to credit, market and legal risk.

The portfolios managed by Jennison Associates utilize U.S. currency futures contracts, a type of derivative, to reduce overall portfolio volatility caused by interest rate risk. At December 31, 2006, the System had receivable futures contracts with a fair value of \$194,980,782 and payable futures contracts with a fair value of \$61,743,281. A cumulative loss on futures contracts amounting to \$131,474 has been recognized by the System through December 31, 2006. As of that date, a net payable balance of \$42,141 has been reported in interest and dividends receivable. At December 31, 2005, the System had receivable futures contracts with a fair value of \$26,313,875 and payable futures contracts with a fair value of \$11,888,593. A cumulative gain on futures contracts amounting to \$34,987 has been recognized by the System through December 31, 2005. As of that date, a net payable balance of \$3,265 has been reported in interest and dividends receivable.

4. ANNUAL REQUIRED CONTRIBUTION

For both the years ended December 31, 2006 and 2005, the City had no required contributions, made no contributions and had no net retirement benefit obligation.

The annual required contributions for 2006 and 2005 were determined as part of an actuarial valuation of the System as of December 31, 2005 and 2004, respectively, using the individual attained age normal cost actuarial funding method. Effective with the December 31, 2005 actuarial valuation, the City changed from the attained age to the entry age actuarial cost method. The other actuarial assumptions for the 2005 and 2004 valuations included: (a) a nominal rate of return, net of expense, on investments of 7.5% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will increase after retirement from 1.0% to 2.0% per year depending on the bargaining unit, age, and the date of retirement. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2006 and 2005, was a rolling ten years for the System.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period.

CITY OF KALAMAZOO
Employees' Retirement System

Notes To Financial Statements

5. ADMINISTRATIVE EXPENSES

The following schedule identifies administrative expenses by type and percentage of net assets:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percent of Net Assets</u>	<u>Amount</u>	<u>Percent of Net Assets</u>
Investment advisor fees	\$ 839,099	.160%	\$1,274,622	.271%
Trust and custodial fees	172,657	.033%	248,673	.053%
Administrative expenses	<u>234,258</u>	<u>.045%</u>	<u>225,522</u>	<u>.048%</u>
	<u>\$1,246,014</u>	<u>.238%</u>	<u>\$1,748,817</u>	<u>.372%</u>

6. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

7. PENSION BENEFITS

During 2001, the City Ordinance was amended to provide for a supplemental benefits payment to certain retirees. Subject to certain limitations as described in the Ordinance, these payments may occur every third year commencing in 2001. Accordingly, supplemental pension benefits amounting to \$747,869 were paid in 2004; no amounts were paid in 2005 and 2006.

* * * * *

**GASB REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Overfunded AAL (OAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL as a Percent of Covered Payroll
12/31/1997	\$ 242,709,209	\$ 161,366,282	\$ 81,342,927	150.4%	\$ 35,791,434	227.3%
12/31/1998	267,250,249	167,726,504	99,523,745	159.3%	35,607,350	279.5%
12/31/1999	303,750,495	192,167,206	111,583,289	158.1%	37,541,170	297.2%
12/31/2000	331,521,519	208,070,230	123,451,289	159.3%	39,377,238	313.5%
12/31/2001	349,206,708	220,302,430	128,904,278	158.5%	41,595,437	309.9%
12/31/2002	348,677,897	230,979,927	117,697,970	151.0%	40,316,918	291.9%
12/31/2003	361,205,383	245,919,424	115,285,959	146.9%	40,914,264	281.8%
12/31/2004	390,615,277	265,080,190	125,535,087	147.4%	41,989,819	299.0%
12/31/2005	422,565,761	294,416,007	128,149,754	143.5%	40,944,435	313.0%
12/31/2006	463,280,966	312,101,938	151,179,028	148.4%	42,164,958	358.5%

Schedule of Employer Contributions

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1997	\$ 840,966	100%
1998	-	-
1999	-	-
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	-	-
2005	-	-
2006	-	-

SUPPLEMENTARY INFORMATION

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Schedule of Cash And Investments
December 31, 2006 and 2005

	Barclays Global Investors		Jennison Associates		Dimensional Func Advisors, Inc.	
	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost
<u>December 31, 2006</u>						
Investments						
U.S. treasuries	\$ -	\$ -	\$ 68,307,731	\$ 69,935,184	\$ -	\$ -
U.S. agencies	-	-	26,453,918	26,399,898	-	-
Corporate debt securities	-	-	29,466,392	29,109,550	-	-
Equity mutual funds	158,060,699	70,391,342	-	-	211,054,680	141,296,323
Real estate mutual funds	-	-	-	-	12,707,457	8,703,842
Total investments	158,060,699	70,391,342	124,228,041	125,444,632	223,762,137	150,000,165
Cash and short-term investment						
Cash	-	-	-	-	-	-
Short-term investment funds	9	9	1,398,580	1,398,580	-	-
Total cash and investment:	\$ 158,060,708	\$ 70,391,351	\$ 125,626,621	\$ 126,843,212	\$ 223,762,137	\$ 150,000,165
<u>December 31, 2005</u>						
Investments						
U.S. treasuries	\$ -	\$ -	\$ 67,841,669	\$ 67,420,515	\$ -	\$ -
U.S. agencies	-	-	29,412,261	29,025,899	-	-
Corporate debt securities	-	-	21,215,623	21,102,472	-	-
Equity mutual funds	148,114,798	76,418,662	-	-	178,829,682	128,026,062
Real estate mutual funds	-	-	-	-	12,058,438	10,308,888
Total investments	148,114,798	76,418,662	118,469,553	117,548,886	190,888,120	138,334,950
Cash and short-term investment						
Cash	-	-	1,258,004	1,258,004	-	-
Short-term investment funds	9	9	1,062,909	1,059,644	-	-
Total cash and investment:	\$ 148,114,807	\$ 76,418,671	\$ 120,790,466	\$ 119,866,534	\$ 190,888,120	\$ 138,334,950

Denver Investment Advisors, Inc.		RREEF		Master Account		Total	
Fair Value	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value	Cost
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,307,731	\$ 69,935,184
-	-	-	-	-	-	26,453,918	26,399,898
-	-	-	-	-	-	29,466,392	29,109,550
-	-	-	-	-	-	369,115,379	211,687,665
-	-	12,845,027	11,532,325	-	-	25,552,484	20,236,167
-	-	12,845,027	11,532,325	-	-	518,895,904	357,368,464
-	-	-	-	-	-	-	-
-	-	-	-	1,032,950	1,032,950	2,431,539	2,431,539
\$ -	\$ -	\$ 12,845,027	\$ 11,532,325	\$ 1,032,950	\$ 1,032,950	\$ 521,327,443	\$ 359,800,003

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,841,669	\$ 67,420,515
-	-	-	-	-	-	29,412,261	29,025,899
-	-	-	-	-	-	21,215,623	21,102,472
-	-	-	-	-	-	326,944,480	204,444,724
-	-	11,309,527	10,889,280	-	-	23,367,965	21,198,168
-	-	11,309,527	10,889,280	-	-	468,781,998	343,191,778
-	-	-	-	-	-	1,258,004	1,258,004
38,435	38,435	-	-	209,307	209,307	1,310,660	1,307,395
\$ 38,435	\$ 38,435	\$ 11,309,527	\$ 10,889,280	\$ 209,307	\$ 209,307	\$ 471,350,662	\$ 345,757,177



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 28, 2007

Members of the Employees'
Retirement System Investment Committee
City Commission of Kalamazoo
Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo Employees' Retirement System* as of December 31, 2006 and 2005, and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Kalamazoo Employees' Retirement System's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Kalamazoo Employees' Retirement System's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.